

**WASHINGTON STATE INVESTMENT BOARD
Private Markets Committee Meeting Minutes
December 3, 2015**

The Private Markets Committee met in open public session at 9:02 a.m. in the boardroom at the Washington State Investment Board in Olympia, Washington.

Members Present: George Masten, Chair
Kelly Fox
Treasurer Jim McIntire
Richard Muhlebach
David Nierenberg
Jeff Seely

Absent: Senator Mike Hewitt
Judy Kuschel

Other Members Present: Marcie Frost

Also Present: Theresa Whitmarsh, Executive Director
Gary Bruebaker, Chief Investment Officer
Tom Ruggels, Senior Investment Officer – Private Equity
Janet Kruzel, Assistant Senior Investment Officer –
Private Equity
Björn Seebach, Investment Officer – Private Equity
Mo Mooers, Assistant Senior Investment Officer – Private
Equity
Diana Will, Senior Investment Officer – Tangible Assets
Kurt Akers, Assistant Senior Investment Officer – Tangible
Assets
Linda Buchanan, Administrative Assistant
Alyssa Murphy, Administrative Assistant

Mary Lobdell, Assistant Attorney General
Brent Burnett, Real Asset Portfolio Management
Michael Augustine, Hamilton Lane
Tara Blackburn, Hamilton Lane
George Roberts, Kohlberg Kravis Roberts & Co.
Mike Michelson, Kohlberg Kravis Roberts & Co.
Alex Navab, Kohlberg Kravis Roberts & Co.
David McKenna, Advent International
James Brocklebank, Advent International
Maggie Sahlman, Advent International
David Wong, PAG Asia Capital
Michael Dorrell, Stonepeak Infrastructure Partners
Trent Vichie, Stonepeak Infrastructure Partners

[Names of other individuals attending the meeting are listed in the permanent record.]

Chair Masten called the meeting to order and took roll call.

PRIVATE EQUITY INVESTMENT RECOMMENDATION – KKR AMERICAS FUND XII L.P.

Mr. Ruggels said that staff recommends a commitment of up to \$750 million in KKR Americas Fund XII, an Americas-focused private equity fund with a target size between \$10 billion and \$12 billion that will be managed by Kohlberg Kravis Roberts & Co. (KKR). The proposed investment is consistent with the updated 2015 private equity annual plan shared with the Board in July and the private equity model portfolio.

Mr. Ruggels described the firm's long history, global presence and reputation, experience, and strong franchise. He detailed KKR's global platform with extensive resources, including KKR Capstone, KKR Capital Markets, Global Macro and Asset Allocation, KKR Global Institute, and the firm's Public Affairs group. Mr. Ruggels discussed KKR's systematic approach to value creation, committee structure, strong and consistent long-term performance, and long-term relationship with the WSIB. He advised that KKR has had significant senior level turnover in recent years. In addition, Mr. Ruggels discussed KKR's recent SEC settlement and succession plans.

[Treasurer McIntire joined the meeting at 9:12 a.m.]

Mr. Ruggels stated that as proposed, up to 25 percent of the fund may be invested outside of the U.S., Canada, and Mexico. He said that KKR now has a team in São Paulo to pursue investment opportunities in Latin America. He also said that over the past few years, KKR has grown significantly and transformed from a private company investing only in private equity to a large, publicly traded firm with multiple products. He continued that, while private equity is still the cornerstone of the firm, it has declined as a percentage of KKR assets under management, from 84 percent to 50 percent over the past 10 years, as the firm continues to grow and diversify. Mr. Ruggels said that KKR has been a long, important relationship for the Board.

The Committee discussed the firm's turnover.

Ms. Blackburn, Hamilton Lane, discussed the firm's departures and future succession, stating these issues are common to many big firms. She opined that although there has been more than preferred senior level turnover in a short time, those departing have been replaced by well-qualified, experienced people. Ms. Blackburn described KKR as a good partner with the WSIB and discussed the firm's good communication, efficient fee basis, and performance. She pointed out that a lot of KKR's peers have or will also experience an SEC review, but KKR was one of the first to be publically sanctioned. Ms. Blackburn described KKR as a leader in environmental, social, and governance (ESG) issues and said they are

giving more attention to gender diversity. She stated that Hamilton Lane is comfortable with the \$750 million commitment.

The Committee inquired as to whether the WSIB has been looking at KKR opportunities in addition to private equity. Mr. Bruebaker replied that staff has had conversations with KKR about real estate and infrastructure but has not made commitments in those areas, as KKR is such a large portion of the total WSIB portfolio.

The Committee discussed the possibility of private equity becoming a minority portion of KKR's assets.

Messrs. Roberts, Michelson, and Navab, Kohlberg Kravis Roberts & Co., introduced themselves.

Mr. Roberts discussed KKR's history with the WSIB and market changes over time. He shared his insights concerning current global market conditions, investment opportunities, and consumer confidence. He described the energy situation in the U.S., supply and demand issues, trade policies, increased productivity, and better education. Mr. Roberts provided an example of one of KKR's portfolio companies, describing the value added, improvements made, and success. He discussed the improvements KKR has made in management, transparency in the firm, and the SEC findings.

Mr. Michelson addressed the SEC settlement relating to the period from 2006 to 2011 resulting from inadequate disclosure regarding the allocation of broken deal fees and expenses between KKR funds and co-investment vehicles. He said that KKR had already changed this process in 2012, prior to the SEC investigation. Mr. Michelson explained that KKR kept all their limited partners apprised of the situation and provided full details of the settlement.

Mr. Navab provided a history of KKR's America funds and discussed KKR's deep team, growth, and experience. He described the firm's broad spectrum of resources, including Capstone; the operational team; other diverse and complementary resources; leadership of the Americas team; consistent record of continuous innovation; alignment with limited partner interest; investment strategy; proprietary deal sourcing; value creation; performance improvement; structure and leadership changes; investment strategy; and increased exposure to other sectors. Mr. Navab discussed risk management, portfolio construction tools and strategies, rigorous concentration limits, deal sourcing, value creation, and ESG programs.

Mr. Michelson detailed KKR's strategic diversity imperative and procedures to address such issues as family leave programs and providing more support and opportunities for partners and employees.

Mr. Navab discussed national and global economics, opportunities across sectors, investment discipline, performance of prior funds, and expectations for future returns.

The Committee inquired as to KKR's plans for private equity as a portion of its total portfolio and to the challenge of bringing women into leadership roles in the private equity sector. Mr. Roberts emphasized that private equity is core in everything the firm does and explained how the different businesses benefit private equity. He said there are many theories as to why there are few women in private equity leadership and outlined steps KKR is taking to attract more women to those roles.

Discussion ensued regarding energy investing, market conditions regarding energy, and opportunities for investment in the sector. Further discussion ensued regarding KKR's minority investments and the potential of investing up to 25 percent of this fund outside of the Americas.

[The Committee recessed at 10:41 a.m. and reconvened at 10:52 a.m.]

Mr. Fox moved that the Private Markets Committee recommend the Board invest up to \$750 million, plus fees and expenses, in KKR Americas Fund XII L.P., subject to continuing due diligence and final negotiation of terms and conditions. Treasurer McIntire seconded, and the motion carried unanimously.

ADOPTION OF THE NOVEMBER 5, 2015, MINUTES

Treasurer McIntire moved to adopt the November 5, 2015, minutes. Mr. Fox seconded, and the motion carried unanimously.

PRIVATE EQUITY INVESTMENT RECOMMENDATION – ADVENT INTERNATIONAL GPE VIII, L.P.

Ms. Kruzel stated that staff recommends and investment of up to \$600 million in Advent International GPE VIII, a \$12 billion private (target) equity fund. The fund will continue Advent's successful, operationally intense control buyout strategy focused on five sectors in middle- and upper-middle-market companies, primarily in Europe and North America. Ms. Kruzel explained that Advent International is comprised of two programs: the global private equity (GPE) program, which invests in developed markets; and the Latin American, which invests in emerging markets. The WSIB has made five prior Advent International investments: two in prior GPE funds and three in prior Latin American funds. The recommendation is consistent with the updated 2015 private equity annual plan shared with the Board in July and the private equity model portfolio.

Ms. Kruzel said that this investment was an attractive opportunity to increase exposure to middle- and upper-middle-market transactions, with a well-established, highly successful general partner that has produced a consistent, long-term, top-

quality track record. She highlighted the firm's global presence, large and experienced international investment team, eight offices staffed with local nationals with access to the specialized expertise of the firm's operating partners, Latin American teams, and corporate professionals. Advent is dedicated solely to private equity.

Mr. Seebach discussed the firm's strong returns to investors across investment sizes, sectors, and geographies. He described exit strategies and active portfolio companies. Mr. Seebach explained that while there is a potential for a deal size increase, any risk is likely to be offset by Advent's proven ability to realize attractive returns from larger deals, expectations that the fund would invest primarily in mid-market deals as in prior funds, and the capacity to invest and monitor this fund prudently.

Ms. Kruzel addressed market opportunities, competition, uncertain economic climate, and low growth rates. She reasoned that Advent has the ability to invest outside Europe and the flexibility to seek appropriate opportunities across sectors and geographies regardless of size, and has successfully shown its abilities to do so. Ms. Kruzel concluded that this opportunity is an excellent portfolio fit for the WSIB and attractive due, in part, to its team, strategy, and strong performance.

Mr. Augustine, Hamilton Lane, described Advent's performance, sourcing, team, value creation, culture, and team approach. He said that Hamilton Lane supports the investment.

Ms. Sahlman, Mr. Brocklebank, and Mr. McKenna, Advent International, discussed the firm's history, global approach, strong culture, good infrastructure, and compliance structure. They described the firm's private partnership model and stated the firm has no intention of going public; private equity is, and will continue to be, its sole product. They explained the firm's GPE and Latin American globally-integrated sector approach, operational focus, and carry-centric alignment. They spoke to the firm's local presence with sector teams that operate internationally, culture, and incentive system and discussed the firm's resources, sector approach, proactive sourcing, value creation, exit strategies, and subsector advisors.

Ms. Sahlman, Mr. Brocklebank, and Mr. McKenna detailed phases of investment, interaction and roles of teams, and market timing for exits. They described the GPE team, performance, and expectations; resource growth; and promotions from within the organization and discussed the firm's partners, private equity experience, culture, relationships, and trust. They described the firm's dynamic allocation approach with broad guidelines and ability to select the best deals, adding that the United Kingdom team was busy in the Netherlands and other areas during 2007 when the best deals were found there. They emphasized a sector focus over a geographic focus and noted that GPE VIII will do more of the same type of strategy as prior funds. They stated the firm is always looking for ways to improve, is not complacent, and expects to close GPE VIII in the first quarter of 2016.

Discussion ensued regarding how Advent generates revenue growth, potential of investments in Asia, governmental risk in Asian markets, fund performance, and the possibility of a higher allocation in the fund.

Further discussion ensued regarding the model portfolio targets.

Mr. Fox moved that the Private Markets Committee recommend to the Board an investment of up to \$600 million, plus fees and expenses, in Advent International GPE VIII, L.P., subject to continuing due diligence and final negotiation of terms and conditions. Treasurer McIntire seconded, and the motion carried unanimously.

PRIVATE EQUITY INVESTMENT RECOMMENDATION – PAG ASIA II LP

Mr. Mooers said that staff recommends an investment of up to \$200 million in PAG Asia II LP, a private equity fund focused on the Asian markets, with a target size of \$3.0 billion. If approved, this commitment would establish a new relationship for the WSIB.

Mr. Mooers described the firm's regional focus in China, Australia, Korea, and Japan. He discussed the fund's fit in the WSIB portfolio, prior performance, large and experienced team, strong network, deal flow, approach to sector investing, control positions, evaluation and monitoring methodologies, operations support team structure, and deal origination. Mr. Mooers explained PAG's broader organization, benefits to the PAG Asia team, and the ability to draw on those resources.

The Committee discussed due diligence of the parent company and the dynamics between the firm and the parent company.

Ms. Blackburn described the firm's relationship with the parent company, the team's western-style leadership, experience, and growth. She spoke to valuations, changes in the market, use of leverage, dynamics, pricing, and reputation.

The Committee inquired as to whether the parent company would have a piece of the carry. Mr. Mooers responded that it would.

Mr. Wong, PAG Asia Capital, introduced himself and stated that the firm is one of the largest Asia-focused alternative investment managers with funds under management across private equity, real estate, and absolute return strategies. He discussed the fund's target geographic focus, deeply seasoned partner group, dedicated team of investment professionals, and the firm's wider resources and back office. He discussed the growth of the private equity team, stability, and low turnover. Mr. Wong provided background information on the partners, including their history and experience. Mr. Wong described the firm's core strategy, attractive opportunities, deal and pricing discipline, exit options and strategies, control orientation, flexibility to look at minority investments structured with downside protection, and sector focus. He discussed the fund's unique and

proprietary opportunities, ability to execute large and complex transactions, operational engagement, and value creation. He provided performance history, and discussed flexible geographic investment allocation, sector and industry focus, and structural and economic changes.

Discussion ensued regarding investments outside of Asia, the possibility of real estate acquisitions, debt ratios, use of leverage, valuations, and the firm's focus on buyout transactions of growing companies.

Treasurer McIntire moved that the Private Markets Committee recommend the Board invest up to \$200 million, plus fees and expenses, in PAG Asia II LP, subject to continuing due diligence and final negotiation of terms and conditions. Mr. Fox seconded and the motion carried unanimously.

[The Committee recessed at 12:28 p.m. and reconvened at 12:45 p.m.]

TANGIBLE ASSETS INVESTMENT RECOMMENDATION – STONEPEAK INFRASTRUCTURE FUND II, LP

Mr. Akers said staff recommends an investment of \$400 million to Stonepeak Infrastructure Fund II, and \$100 million to a separate account vehicle with a name, mandate, and terms that are still being determined. Neither commitment was included in the annual plan for 2015. He explained that this recommendation was going to be included in the 2016 annual plan, but due to strong demand for Fund II, staff decided to bring it forward early.

Mr. Akers stated that the WSIB committed \$250 million in October 2012 as part of the first close for Stonepeak's Fund I, an amount that allowed the firm to gain independence and gain credibility. For that independence, Stonepeak has always held the WSIB in special regard for the faith that the WSIB showed in them. He said the WSIB's commitment to Fund I, plus the recommendation that staff is seeking today, will put the WSIB in a position to be a strategic capital provider to a firm that staff believes is one of the more talented groups in the industry. The separate account reinforces that notion, as the WSIB is the only organization that will have such an arrangement with Stonepeak.

Mr. Akers highlighted the firm's strong track record with Fund I, impressive team at all levels of the organization, WSIB's position as Stonepeak's leading investor, the platform company concept that Stonepeak has utilized in Fund I, the separate account, and the unique provisions in Fund I and Fund II, which all should provide the WSIB more ability to actively manage its assets. He discussed a few key risks, including the increase in fund size, as Fund II is slightly more than double the size of Fund I, and the team development with the need to add more investment and back-office staff.

The Committee discussed Stonepeak being carbon averse and Stonepeak's plan for investing in projects involving fossil fuels, as well as other investments in Washington.

Mr. Akers said Stonepeak will invest in fossil fuel but is very renewable focused. He explained that Stonepeak has an investment in Washington in Fund I now and has other potential projects in its deal pipeline for Fund II in Washington.

Mr. Burnett, Real Asset Portfolio Management, discussed his strong recommendation for the team and its strategy. He explained that his firm spent a lot of time doing reference checks and contacting portfolio companies for due diligence purposes, as this is a relatively young firm. Mr. Burnett explained that Stonepeak has a great track record with conservatively valued portfolio companies with consistent performance.

The Committee discussed Fund II's investment in assets in Washington. Mr. Akers explained that Stonepeak has the option to invest in a project, converting methanol, in Washington State, in which the Governor has been very involved.

[Treasurer McIntire left the meeting at 12:59 p.m.]

[Mr. Seely left the meeting at 1:00 p.m.]

Mr. Dorrell and Mr. Vichie of Stonepeak Infrastructure Partners provided an overview of the firm. Mr. Dorrell explained that Stonepeak is a middle-market infrastructure fund that is North America focused. He expressed extreme gratitude to the WSIB for investing in Fund I and putting Stonepeak on the map. Mr. Dorrell said that Stonepeak targets six sectors: midstream energy, power generation, alternative energy, water, transportation, and telecommunications. He discussed Stonepeak's investment team, operations, and operating partners and explained how the teams have grown substantially.

Mr. Dorrell identified the portfolio companies for Stonepeak Fund I. He discussed the current market conditions and how they are expensive. Mr. Dorrell stated that when involved in core infrastructure, you want to put your capital to work in the early phases. He explained how the most important thing for an infrastructure fund is to protect the downside. Mr. Vichie discussed how the firm looks for long-term contracts that are very conservative on leverage, and they structure their debt with long duration.

Mr. Vichie detailed a portfolio company case study in Fund I, Carlsbad Desalination Project. He explained how the project has just finished its construction period. The company uses reverse osmosis to deliver drinking water that is being consumed in San Diego, California right now.

The Committee discussed how Carlsbad is governed and the possibility for growth. Mr. Vichie explained that the Carlsbad negotiation was very robust and how the firm is very detailed, with clear divisions as to which sides perform which duties. He stated that they needed to secure more land to grow the plant, but the filters that are put into the plant will be able to produce 10 percent more drinking water.

Mr. Dorrell identified another portfolio company case study in Fund I, Energizing Co. He explained how this company invests in smart grids, which upgrade electric transmission grids, how Stonepeak finds that the electric utility space is very important, and how the firm is very concerned with the headwinds in the space. Mr. Dorrell discussed the increasing carbon regulations and how Stonepeak does not want to be on the wrong side of the carbon issue. He detailed how the retiring of coal plants and independent power plants putting up solar and wind plants causes the cost to go up and the revenue to go down.

The Committee discussed Stonepeak's experience finding and growing its staff and its involvement in the matter.

Mr. Dorrell explained that Stonepeak tries to hire people who will fit well with the firm and remove those who do not.

The Committee discussed Stonepeak's investments that could put them on the wrong side of climate change. Mr. Dorrell shared that Stonepeak would not do any investing in coal but will in the oil and gas industry. He shared that Stonepeak believes in a diversified fund, investing no more than 20 percent of the fund in each asset.

Due to a lack of quorum, the Committee was unable to take action. It was the consensus of those Committee members present that the recommendation to invest \$400 million, plus fees and expenses, in Stonepeak Infrastructure Fund II, LP and \$100 million, plus fees and expenses, into a yet-to-be named or structured side car vehicle for strategies identified by Stonepeak that are a strong fit with the tangible assets portfolio, subject to continuing due diligence and final negotiation of terms and conditions, be forwarded to the Board for approval.

PRIVATE MARKETS CLOSING LOG

The Private Markets Closing Log was presented for informational purposes.

OTHER ITEMS

There were no other items to come before the Committee, and the meeting adjourned at 1:37 p.m.